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OECD Meeting Stresses Agricultural Reform

At the ministerial meeting of the Organization for Economic Cooperation and Development in Paris May 12-13, the 24 member-governments called for a reduction in farm subsidies and a liberalization of agricultural trade. Farm support programs in the OECD countries cost more than $100 billion a year and have created huge agricultural surpluses. Officials at the meeting agreed in principle to a "progressive and concerted reduction of agricultural support" to allow market signals to play a greater role in determining farm production. Governments should support farmers' incomes directly, they concluded, rather than provide price supports that encourage farmers to produce more food.

According to Japan's Institute for Energy Economics, the nation's total energy consumption actually declined in fiscal 1986 for the first time in four years. The institute attributed the 0.4 percent drop, which lowered consumption to 422 million kiloliters of crude oil equivalent, to a 5 percent decline in coal usage due to the depressed state of the steel industry. The institute predicted that energy use would rise 1 to 2 percent during FY 1987 while the landed price of an average barrel of crude oil would rise from $13.67 to $15.63.

The decline may be a temporary condition caused by the negative economic impact of the higher yen, but MITI argues that changes in the underlying economic structure will lead to a long-term decline in consumption. MITI's Advisory Committee for Energy has agreed to revise the ministry's long-term outlook to take into consideration the increasing importance of the service sector and the growth of light, knowledge-intensive industry. The current long-term plan, formulated in November 1983, projects consumption at 530 million kiloliters of crude oil equivalent by FY 1995, a jump of nearly 21 percent over FY 1985's level of 439 million kiloliters. The new projection will estimate demand through the year 2000 and will be completed in September.

Japan's current disagreement with Canada over coal prices is an example of how painful adjusting to lower energy demands can be. In the early 1980s Japanese steel producers signed long-term contracts with Quintette Coal Ltd. of British Columbia for deliveries at approximately $70 a metric ton. Quintette began supplying coal only after significant investment by the Canadian government in roads and port facilities. With current world prices in the range of $44 a metric ton, it is not surprising that hard-pressed steel makers are pushing for a sharp reduction in Quintette's price. With debts of over $500 million, however, Quintette can ill-afford to lower its price and warns that it may be forced to close, disrupting the provincial economy. The Canadians insist that the Japanese honor the contract price, while the Japanese are equally insistent on a lower price. Steel mills are threatening unilateral action if an agreement is not reached soon.

Jon Choy

DOD Releases Burdensharing Report

The Department of Defense's annual "Report on Allied Contributions to the Common Defense" concludes that while Japan and many other U.S. allies are "making a substantial contribution to the common defense [and] are certainly doing much better than is commonly recognized," continued efforts toward improving the defense capabilities of these countries is necessary, not because of the "fair share" argument but as part of an ongoing process to enhance defensive capabilities.

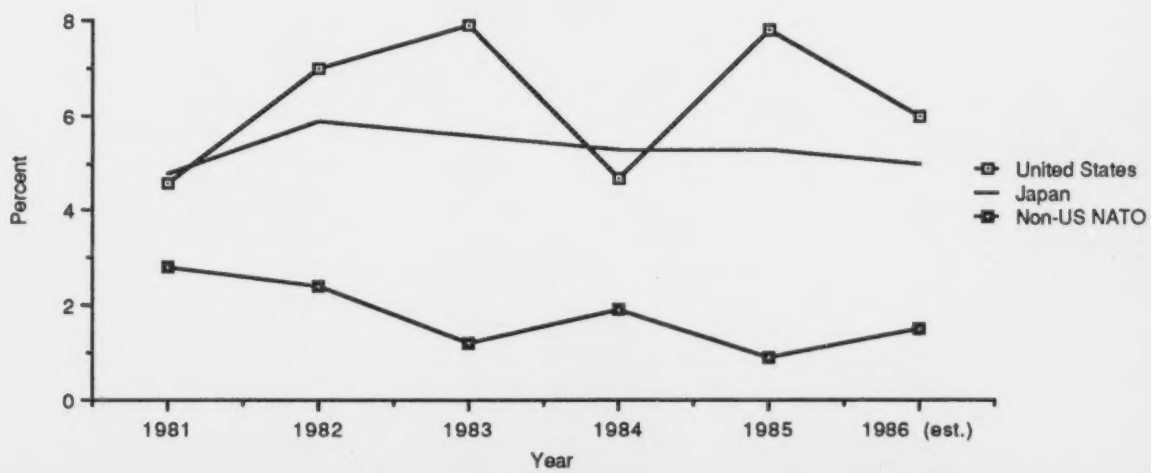
The study, which examines defense spending by Japan, the North Atlantic Treaty Organization countries, Spain and France, points out that Japan's overall contributions compared with its economic status place it last or next to last in every indicator category (see Table). It goes on to declare, however, that "Japan recognizes this and in fact has achieved the second highest percentage change in real defense spending from 1971 to 1985" among the 16 countries surveyed. The report singles out above-average spending for naval

Comparison of Selected Indicators of Japan's Burdensharing

Indicators of Ability to Contribute	Percentage	Rank
Share of total gross domestic product	16.86%	2
Share of total population	15.93	2
Per capita GDP (percent of highest nation)	70.30	5
Indicators of Contributions*		
Share of aggregate defense spending	3.60%	5
Share of aggregate active defense manpower	3.21	8
Share of aggregate active/reserve manpower	2.22	9
Share of aggregate ground force division equivalent firepower (DEF)	3.70	9
Share of aggregate tactical combat aircraft	3.81	7
Share of aggregate naval tonnage (all ships less SSBN)	3.13	5
Change in defense manpower (1971 vs. 1985)	3.38	5
Change in defense spending in real terms (1971 vs. 1985)	131.84	2
Contributions vs. Ability to Contribute (ratios)		
Share of defense spending:GDP share	0.21	16
Active manpower:population	0.20	16
Active/reserve manpower:population	0.14	16
Ground forces DEF:GDP share	0.22	15
Combat aircraft share:GDP share	0.23	15
Naval tonnage share:GDP share	0.19	15

*Except as indicated, reflects Japan's share of the relevant indicator for the 16 countries surveyed.

Growth in Real Defense Spending, 1981-86
(Annual percent change)



Source: U.S. Department of Defense, Report on Allied Contributions to the Common Defense: A Report to the United States Congress, April 1987.

defense, noting that "Japan has more than twice as many destroyers and more than three times as many anti-submarine aircraft defending its territory as [this country] has defending the continental United States." (This is to be expected given Japan's emphasis on maritime defense and the nature of potential security threats.)

Japan also scores points in the DOD survey for its "strong political statement" in support of the Strategic Defense Initiative, as well as for the $1.26 billion spent in FY 1986 in direct and indirect support for U.S. forces stationed in Japan. (The figure would be considerably higher at current exchange rates.) Of the FY 1986 total, 29.2 percent came from the non-defense budget. "Owing to this voluntary GOJ program, which began at $100 million in 1979, the U.S. has an excellent base structure in Japan which greatly aids U.S. capability to defend its own and allied interests in the Far East and has greatly improved the morale of U.S. forces stationed in Japan," the report concludes.

In a special section analyzing Japan's performance in fulfilling its defense goals, including protection of the sealanes approaching the country to a distance of 1,000 nautical miles to the south and east, the report concludes that present defense budgets will enable the country to obtain "the necessary minimum to meet its defense goals if the remaining three years [of the government's five-year procurement program] are also fully funded." It adds that "Japan's progress in defense, particularly in view of [government] budget austerity, . . . is appropriate for a full-fledged ally."

The burdensharing report, which is required annually by the U.S. Congress, is perhaps more upbeat in terms of Japan than previous years, although they, too, were generally favorable. Moreover, this year's analysis of Japan-related defense issues is far more extensive than previously. The tone of the report stands in contrast with more contentious issues between the two countries, such as technology transfers, but helps maintain a steady working relationship between DOD and the Japan Defense Agency by illustrating Japan's defense contributions in a broader light and thus diffusing many of the political pressures associated with bilateral defense issues. At the same time, from the DOD perspective, it articulates department interests and maintains subtle, yet unabrasive, pressure on Japan to maintain the momentum toward fulfilling its defense goals.

Michael W. Chinworth

Nikaido Enters LDP Presidential Race

Former Liberal Democratic Party vice president Susumu Nikaido May 14 tossed his hat into the race for the party presidency, throwing a monkey wrench into an already complex situation. The surprise announcement increased to four the number of potential contenders for the position, which is tantamount to election as prime minister, including the party's three "new leaders" -- Finance Minister Kiichi Miyazawa, LDP secretary general Noboru Takeshita and LDP executive council chairman Shintaro Abe.

The announcement took party elders by surprise and followed the release of Mr. Takeshita's official political biography, which includes veiled references to ambitions of becoming the party's leader. The move complicates the

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1985	1986	January-March 1986	January-March 1987	January 1987	February 1987	March 1987
Japan's Balance of Payments							
Trade Balance	$55,986	$92,827	$14,552	$23,159*	$5,703*	$8,138*	$9,318*
Exports (f.o.b.)	174,015	205,591	44,813	50,379*	14,646*	16,744*	18,989*
Imports (f.o.b.)	118,029	112,764	30,261	27,220*	8,943*	8,606*	9,671*
Current Account Balance	49,169	85,845	12,668	20,585*	4,951*	7,381*	8,253*
Long-Term Capital (net)	-64,542	-131,461	-18,990	-32,455*	-12,322*	-11,396*	-8,737*
Overall Balance	-12,318	-44,767	-5,695	-4,872	-7,036	-2,650	4,814
International Reserves (end of period)	26,510	42,239	27,917	58,389	51,459	51,730	58,389
Japan's Customs Clearance Trade							
Trade Balance	46,099	82,743	12,494	19,539	4,303	7,136	8,100
Exports (f.o.b.)	175,638	209,151	45,499	51,478	14,901	17,242	19,336
Cars	25,402	32,945	6,516	7,477	2,737	2,676	2,064
Steel	13,566	12,706	2,867	2,837	818	933	1,086
Imports (c.i.f.)	129,539	126,408	33,005	31,940	10,598	10,107	11,235
Crude Oil	34,599	19,481	8,538	5,338	1,758	1,789	1,791
Japan-U.S. Trade							
Trade Balance	39,485	51,401	10,418	11,041	3,283	3,971	3,787
Exports (f.o.b.)	65,278	80,456	16,696	18,003	5,599	6,212	6,192
Imports (c.i.f.)	25,793	29,054	6,278	6,961	2,316	2,241	2,404
U.S.-Japan Trade							
Trade Balance (f.a.s./c.i.f.)	-49,749	-58,575	-15,315	-14,373	-4,360	-5,065	-4,947
Exports (f.a.s.)	22,631	26,882	5,574	5,959	1,785	2,035	2,139
Imports (c.i.f.)	72,380	85,457	20,888	20,331	6,146	7,100	7,086
Trade Balance (f.a.s./Customs)	-46,152	-55,030	-14,374	-13,571	-4,115	-4,790	-4,666
Exports (f.a.s.)	22,631	26,882	5,574	5,959	1,785	2,035	2,139
Industrial Supplies	8,680	8,752	2,091	2,269	716	725	828
Capital Goods	5,939	6,728	1,476	1,510	404	559	547
Food and Feed	5,001	5,043	1,239	1,129	339	399	391
Consumer Goods	1,416	1,690	385	522	141	160	221
Imports (Customs)	68,783	81,911	19,948	19,529	5,901	6,825	6,804
Automotive Products	24,980	32,849	7,371	7,748	2,476	2,781	2,491
Capital Goods	21,516	25,334	6,381	6,626	1,916	2,246	2,464
Consumer Goods	14,017	15,451	3,971	3,054	861	1,105	1,088
Industrial Supplies	7,035	6,949	1,929	1,808	559	595	654

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1985	1986	January-March 1986	January-March 1987	January 1987	February 1987	March 1987
Discount Rate (end of period)	5.0%	3.0%	4.0%	2.5%	3.0%	2.5%	2.5%
Outstanding Money Supply	8.4%	8.7%	9.0%	8.8%*	8.6%	8.8%	9.0%*
Industrial Production	4.0%	-0.3%	1.3%	0.5%*	0.5%	0.0%	0.9%*
Manufacturing Operating Rate	1.2%	-4.8%	-1.8%	n.a.	-4.3%	-3.7%	n.a.
Number of Bankruptcies	-9.7%	-7.1%	-10.8%	-14.4%	-6.5%	-14.9%	-20.7%
Residential Construction Starts	4.1%	10.4%	5.5%	12.3%	10.3%	13.4%	12.8%
Job Openings to Applications (ratio)	0.68	0.62	0.65	0.62	0.61	0.62	0.63
Nominal Wages	3.6%	3.5%	4.7%	2.6%*	2.5%	2.3%	3.0%*
Labor Productivity	4.2%	2.3%	2.6%	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	-1.1%	-9.3%	-6.4%	-8.7%	-10.3%	-9.1%	-6.8%
Consumer Prices	2.0%	0.6%	1.6%	-0.9%	-1.1%	-1.0%	-0.5%
Yen-Based Export Prices	-1.4%	-14.5%	-14.1%	-7.7%	-9.8%	-7.1%	-6.2%
Yen-Based Import Prices	-2.5%	-34.7%	-21.8%	-27.1%	-34.0%	-29.1%	-16.2%

*Preliminary.

For Japan's most recent GNP figures, see JEI Report No. 12B, March 27, 1987.